

Report
of the
Examination of
CUMIS Insurance Society, Inc.
Madison, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 15, 2002

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Commissioners:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

CUMIS INSURANCE SOCIETY, INC.
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of CUMIS Insurance Society, Inc. ("CUMIS," or the "company") was conducted in 1997 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000 and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuary was engaged to assist in the review of company loss reserves, under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves. The results of the actuary's review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's findings.

II. HISTORY AND PLAN OF OPERATION

CUMIS Insurance Society, Inc. is a Wisconsin domiciled stock property and casualty insurer. CUMIS was organized in 1960 for the purpose of providing insurance on the property and casualty risks of credit unions and their members.

The company provides insurance coverages to credit unions in the United States, and obtains approximately 4% of its premiums volume from international operations. The company specializes in writing fidelity bonds with directors and officers endorsements and in writing multiple peril package coverages offered to credit unions.

Effective January 1, 1994, the company terminated its direct writing of individual property and casualty risks for credit union members, and ceded its entire book of domestic individual property and casualty risks to the then affiliated CUMIS General Insurance Company, through a 100% quota share reinsurance facility. As of July 1, 1998, 100% ownership interest of CUMIS General Insurance Company was purchased by Liberty Mutual Insurance Company (Liberty Mutual). Also as of July 1, 1998, the CUNA Mutual group began marketing Liberty Mutual personal lines insurance products to credit union members. The company participates in the Liberty Mutual personal lines business marketed by the CUNA Mutual group through a 15% quota share reinsurance agreement with Liberty Mutual.

All of the outstanding capital stock of the company is owned by CUNA Mutual Investment Corporation (CMIC), a non-operating holding company, which in turn is a wholly owned subsidiary of CUNA Mutual Insurance Society (CUNA Mutual). CUNA Mutual is a Wisconsin domiciled mutual life and health insurer that provides insurance and financial products and services to credit unions and credit union members.

CUMIS does not have any employees, and all of its operations are performed by affiliates pursuant to numerous intercompany services agreements. Further discussion of the company's holding company affiliates and intercompany transactions is included in the section of this report captioned "Affiliated Companies."

The company maintains insurance authorization in all 50 states and Washington D.C., in American Samoa, Puerto Rico, and the U.S. Virgin Islands, and in Canada and other

foreign countries. Most of the company's insurance business is written in the United States, with no individual state accounting for more than 12% of the direct premium written. In 2000, the company wrote direct premiums in the following jurisdictions:

California	\$ 31,446,738	11.4%
Florida	18,096,073	6.6%
Michigan	15,439,820	5.6%
Texas	14,090,692	5.1%
New York	13,699,658	5.0%
All others	<u>182,363,271</u>	<u>66.3%</u>
	<u>\$275,136,252</u>	<u>100%</u>

The "all others" category amount shown above includes approximately \$8 million of premium related to direct business written in foreign countries. The company does not have any direct written Canadian business.

The company's primary business lines are commercial property, casualty, and fidelity bond coverages sold to credit unions. The company's insurance policies are marketed to credit unions by CUNA Mutual's field force of salaried sales representatives.

The following table is a summary of the net insurance premiums written by the company in 2000. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 43,637	\$ 19,566	\$ 3,285	\$ 59,918
Allied lines	256,128	59,116	15,446	299,798
Homeowner's multiple peril	(367,511)	1,939,445	88,190	1,483,744
Commercial multiple peril	34,890,331	65,709	2,925,947	32,030,093
Inland marine	7,037,871		115	7,037,756
Group accident and health	232,505	(9,253)	118,602	104,650
Credit accident and health (group and individual)	4,801,426		99,946	4,701,480
Worker's compensation	11,915,780	278,041	511,054	11,682,767
Other liability - occurrence	125,994		211	125,783
Other liability - claims made	36,948,109	(278)	1,086,905	35,860,926
Private passenger auto liability	502	10,043,484	498	10,043,488
Commercial auto liability	3,485,302	16,207	52,163	3,449,346
Auto physical damage	65,291,631	\$17,830,827	706,196	82,416,262
Fidelity	110,323,206	527,224	4,880,300	105,970,130
Surety	151,329			151,329
Burglary and theft	10	250	4	256
Reinsurance – Nonproportional Assumed Liability		474,606		474,606
Reinsurance – Nonproportional Assumed Financial Lines		85,833		474,606
Total All Lines	<u>\$275,136,250</u>	<u>\$31,330,777</u>	<u>\$10,488,862</u>	<u>\$295,978,165</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The company's board of directors consists of fourteen members. Effective May 2001, the board approved a restructure of the directors' classes and terms of office. Prior to the restructure, the directors were organized into three classes, each class serving a term of six-year duration. Upon the 2001 restructure, each director was newly appointed to one of two classes of directors, each class serving a term that is four-years in duration. One class of directors is elected by company policyholders at each biennial general election of directors.

Each member of the CUMIS board of directors also serves as a director on the boards of CUNA Mutual, MEMBERS Life Insurance Company (MLIC), and CUNA Mutual Life Insurance Company (CMLIC), and the boards of directors of the four insurers have common membership. Each director currently receives a minimum annual base fee of \$46,000 as compensation for serving on the CUNA Mutual group boards of directors. Cash payments for directors' fees and expenses are disbursed by CUNA Mutual, and a portion of the total directors' expense is allocated to various companies in the CUNA Mutual group including CUMIS through affiliated services agreements. Additional examination comment and recommendation is included in the findings section of this report captioned "Corporation By-laws."

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert W. Bream Palantine, IL.	President/CEO United Airlines Employees Credit Union	2002
James L. Bryan Dallas, TX.	President, Texans Credit Union	2002
Loretta M. Burd Columbus, IN.	CEO, Centra Credit Union	2002
Rudolf J. Hanley Orange, CA.	CEO, Orange County Teachers Federal Credit Union	2002
Omer K. Reed Scottsdale, AZ.	President, Pentegra, Ltd.	2002
Farouk Da Goan Wang Mililani, Hawaii	Director, Buildings and Grounds Management, University of Hawaii	2002

Larry T. Wilson Raleigh, NC.	President/CEO, Coastal Federal Credit Union	2002
James C. Barbre Acworth, Ga.	Chairman, Georgia Corp. Central Credit Union	2004
Ralph B. Canterbury Ormand Beach, FL	Retired CEO Orange County Teachers Federal Credit Union	2004
Jerald R. Hinrichs New Canaan, CN.	President, Hinricks & Associates	2004
Michael B. Kitchen Madison, WI.	President/CEO, CUNA Mutual Group	2004
Brian L. McDonnell Oak Hills, VA.	CEO, Navy Federal Credit Union	2004
Clark A. Peppers Aurora, CO.	CEO, Denver Public Schools Credit Union	2004
Neil A. Springer Wheaton, IL.	Managing Director, Springer Souder & Associates, L.L.C.	2004

Officers of the Company

The officers of CUMIS are appointed by the board of directors at the directors' annual meeting. Each officer of CUMIS also holds the corresponding office in CUNA Mutual, MLIC, and CMLIC, and the four insurers have a shared corps of senior executive officers. The officers serving at the time of this examination are as follows:

Name	Office	2000 Compensation *
James L. Bryan	Chairman	\$ 33,071
Michael B. Kitchen	President, Chief Executive Officer	706,532
Faye A. Patzner	Secretary and Senior Vice President	63,256
Jeffrey D. Holley	Treasurer and Senior Vice President	304,615
Irene R. Steinl	Actuary	58,548

* Includes total compensation paid for all four insurers.

Committees of the Board

The company's by-laws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

Neil A. Springer, Chair
James L. Bryan, Sr.
Loretta M. Burd
Michael B. Kitchen
Bryan L. McDonnell
Larry T. Wilson

Audit Committee

Jerald R. Hinrichs, Chair
James C. Barbre
Robert W. Bream
Loretta M. Burd
Omar K. Reed

Governance Committee

Clark A. Peppers
Brian L. McDonnell
Michael B. Kitchen
Ralph B. Canterbury
Farouk Da Goun Wang
Faye A. Patzner
Rudolf J. Hanley
Larry T. Wilson
Donna C. Blankenheim

IV. AFFILIATED COMPANIES

CUMIS Insurance Society, Inc. is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

CUNA Mutual Insurance Society Organizational Chart As of December 31, 2000

CUNA Mutual Insurance Society (1)
CUNA Mutual Investment Corporation
CUMIS Insurance Society, Inc.
MEMBERS Life Insurance Company
CMG Mortgage Insurance Group (2)
MEMBERS Capital Advisors, Inc. (3)
Stewart Associates Incorporated
MEMBERS Development Company LLC (4)
CUNA Mutual Insurance Agency, Inc.
CUNA Mutual General Agency of Texas, Inc.
CUNA Brokerage Services, Inc.
CUNA Mutual Mortgage Corporation
The CUMIS Group, LTD. (Canada)
CUMIS Life Insurance Company (Canada)
CUMIS General Insurance Company (Canada)
Canadian Northern Shield Insurance Company (Canada)
CUNA Mutual Australia Holding Company PTY LTD. (Australia)
CUNA Mutual Life Australia, LTD. (Australia)
finsure.australia LTD (Australia) (5)

- (1) CUNA Mutual Insurance Society and CUNA Mutual Life Insurance Company (CMLIC) are affiliated pursuant to a mutual agreement to have common management and shared operating functions. The two companies are independent with regard to their respective ownership interests, as each is a mutual insurer owned by its respective policyholders.
- (2) Comprised of three mortgage guaranty insurers, each of which is a joint venture that is 50% owned by CUNA Mutual Investment Corporation and 50% owned by PMI Mortgage Insurance Co.
- (3) 50% owned by CUNA Mutual Investment Corporation and 50% owned by CUNA Mutual Life Insurance Company.
- (4) 49% owned by CUNA Mutual Investment Corporation and 51% owned by various credit unions and credit union organizations.
- (5) 50% owned by CUNA Mutual Australia Holding Company PTY LTD.

CUNA Mutual Insurance Society (CUNA Mutual)

CUNA Mutual is a Wisconsin domiciled mutual life insurance company that was organized in 1935. CUNA Mutual and its affiliates provide group and individual life insurance, accident and health insurance, property and casualty insurance, and other financial products and services to the credit union industry, including credit unions, credit union service organizations, and credit union members. CUNA Mutual business activities are conducted in all states, the District of Columbia, and in countries and political jurisdictions throughout the world.

As of December 31, 2000, CUNA Mutual's statutory financial statements reported total admitted assets of \$2,284,860,288, total liabilities of \$1,710,288,308, and capital and surplus of \$574,571,980. Operations for 2000 reported net income of \$203,500,341.

CUNA Mutual Life Insurance Company (CMLIC)

CMLIC is an Iowa domiciled mutual life insurer that offers a full range of variable and universal life and health insurance products. CUNA Mutual and CMLIC entered into an Agreement of Permanent Affiliation effective July 1, 1990. Under the agreement, the companies have common management, and share functions such as legal, investment, and product administration services. CMLIC formerly was known as Century Life of America; its name was changed to CUNA Mutual Life Insurance Company effective December 31, 1996.

As of December 31, 2000, CMLIC's statutory financial statement reported total admitted assets of \$5.1 billion, total liabilities of \$4.9 billion, and capital and surplus of \$219 million. Operations for 2000 reported net income of \$6 million.

CUNA Mutual Investment Corporation (CMIC)

CMIC is a Wisconsin domiciled holding company that is a wholly owned subsidiary of CUNA Mutual Insurance Society. CMIC serves as a non-operating holding company for each of the CUNA Mutual operating companies domiciled in the United States.

As of December 31, 2000, CMIC's statutory basis audited financial statements reported total assets of \$426 million, total liabilities of \$26 million, and total stockholders' equity of \$400 million. In 2000, CMIC reported net income of \$67 million.

MEMBERS Life Insurance Company (MLIC)

MLIC is a Wisconsin domiciled stock life and health insurance company wholly owned by CMIC. MLIC primarily services existing blocks of individual and group life policies, and serves as a reinsurer of individual life and annuity policies written by the affiliated insurer CUNA Mutual Life Insurance Company.

As of December 31, 2000, MLIC's statutory financial statements reported total admitted assets of \$523,196,704, total liabilities of \$486,197,741, and capital and surplus of \$36,998,963. Operations for 2000 reported net income of \$5,895,008.

CMG Mortgage Insurance Group

The CMG mortgage insurance group is comprised of three Wisconsin domiciled mortgage guaranty insurers, including CMG Mortgage Insurance Company (CMG Mortgage), CMG Mortgage Reinsurance Company (CMG Re), and CMG Mortgage Assurance Company (CMG Assurance). Each CMG mortgage guaranty insurer is operated as an independently organized joint venture enterprise, with the capital stock of each respective company jointly owned 50% by CMIC and 50% by PMI Mortgage Insurance Co. CMG Mortgage is a direct writer of mortgage guaranty insurance, and provides coverage for first lien residential mortgage loans originated by credit unions. CMG Re assumes quota share reinsurance coverage of risks written by CMG Mortgage, to enable CMG Mortgage to comply with statutory restrictions on the amount of mortgage guaranty risks that an individual insurer is permitted to retain. CMG Assurance is authorized to insure loans on junior liens and second mortgages.

As of December 31, 2000, the CMG mortgage insurance group's statutory financial statements reported aggregate admitted assets of \$114 million, aggregate liabilities of \$60 million, and capital and surplus of \$54 million. Operations for 2000 reported net income of \$10 million.

MEMBERS Capital Advisors, Inc. (MCA)

MCA is an investment advisor and manager that is registered under the Investment Advisers Act of 1940. MCA is jointly owned 50% by CMIC and 50% by CMLIC, and acts as an investment advisor and portfolio manager for CUNA Mutual. MCA was organized in 1982 under the name Century Investment Management Company, and its name was changed to MEMBERS Capital Advisors, Inc. effective September 21, 2000.

As of December 31, 2000, MCA's audited financial statements reported total assets of \$26,282,470, total liabilities of \$8,682,104, and stockholders equity of \$17,600,366. Operations for 2000 reported net income of \$5,746,477.

Stewart Associates Incorporated (Stewart)

Stewart is an insurance agency formerly named Stewart and Associates, which was purchased by CMIC in 1998. Stewart was organized to maintain the former collateral protection insurance business of Stewart and Associates and to manage the ongoing collateral insurance program of the CUNA Mutual group.

As of December 31, 2000, Stewart's unaudited financial statements reported total assets of \$4,942,988, total liabilities of \$3,112,988, and shareholders equity of \$1,830,000. Operations reported for 2000 were break-even, and did not report a net income or loss.

CUNA Brokerage Services, Inc. (CBS)

CBS is registered with the Securities and Exchange Commission as a broker-dealer, and is a member of National Association of Securities Dealers, Inc. (NASD). CBS markets various financial products primarily to credit union members. CBS-marketed products include mutual funds, unit investment trusts, variable annuities, flexible premium variable life insurance, public limited partnerships, financial planning, and discount brokerage services.

As of December 31, 2000, CBS's audited financial statements reported total assets of \$5,244,903, total liabilities of \$2,022,310, and stockholders equity of \$3,222,593. Operations for 2000 reported net income of \$1,164,029.

CUNA Mutual General Agency of Texas, Inc. (CMGA)

CMGA is a Texas managing general agency that produces collateral protection insurance (CPI) issued to credit unions under a fronting arrangement with Old American County Mutual Fire Insurance Company (Old American). The business is written in Old American to satisfy Texas regulatory requirements that CPI business in Texas may be written solely by Texas domiciled insurers. The Old American business produced by CMGA is 100% ceded to CUMIS Insurance Society, Inc.

As of December 31, 2000, CMGA's unaudited financial statements reported total assets of \$734,871, total liabilities of \$253,443, and stockholders equity of \$481,428. Operations for 2000 reported a net loss of \$243,427.

CUNA Mutual Insurance Agency, Inc. (CMIA)

CMIA serves as an insurance brokerage affiliate to provide corporate and personal lines insurance brokerage and agency services.

As of December 31, 2000, CMIA's unaudited financial statements reported total assets of \$11,015,115, total liabilities of \$6,026,176, and stockholders equity of \$4,988,939. Operations for 2000 reported a net loss of \$1,321,043.

CUNA Mutual Mortgage Corporation (CMMC)

CMMC is a Wisconsin domiciled financial services corporation wholly owned by CMIC, and provides mortgage banking and loan services to credit unions. CMMC maintains a servicing portfolio of mortgage loans that it manages and services, and also originates mortgage loans. CMMC was formerly known as CUNA Mortgage Corporation, and its name was changed to the one presently used effective December 17, 1999.

As of December 31, 2000, CMMC's audited financial statements reported total assets of \$75,911,240, total liabilities of \$46,403,588, and total stockholders equity of \$29,507,652. Operations in 2000 reported a net loss of \$4,173,576.

The CUMIS Group, LTD (CUMIS Group)

CUMIS Group is an insurance holding company incorporated under the Canada Business Corporations Act. As of December 31, 2000, CUNA Mutual holds a 63.346% ownership interest in CUMIS Group; Canadian cooperatives and credit unions hold the remaining ownership interest. CUMIS Group, through its subsidiaries CUMIS Life Insurance Company (CUMIS Life), CUMIS General Insurance Company, and Canadian Northern Shield Insurance Company, underwrites, markets and services an array of insurance products that are offered to credit unions and credit union members in Canada. CUMIS Group insurance products include life, accident and sickness, property and casualty, and commercial insurance.

As of December 31, 2000, CUMIS Group's consolidated, audited financial statements reported total assets of Cdn\$464,019,208, total liabilities of Cdn\$402,099,821, and shareholders' equity of Cdn\$62 million. Operations in 2000 reported net income of Cdn\$8 million.

Affiliated Agreements

CUNA Mutual and its affiliates have various intercompany financial and services relationships that are governed by affiliated agreements. A brief summary of significant affiliated agreements pertaining to the company is provided below.

CUNA Mutual and CMLIC Permanent Affiliation

As noted previously in this report, CUNA Mutual and CMLIC are parties to an agreement of permanent affiliation whereby the two companies have unified executive management and corporate governance, and under which the two companies maintain unified operating functions. Pursuant to the permanent affiliation agreement, CUNA Mutual, MLIC and CMLIC provide mutual intercompany services, and their respective applicable direct and indirect expenses are assigned, allocated, or shared in accordance with provisions of the affiliation agreement. The affiliation provides that for certain lines of their respective direct business CUNA Mutual and CMLIC share as equal partners in the net profits of the two respective companies..

Tax Allocation Agreement

Effective January 1, 1987, CUNA Mutual and its affiliates entered into a restated tax allocation agreement for filing federal income tax returns on a consolidated basis. The tax liability of the affiliated group is allocated to individual member companies in accordance with Internal Revenue Service regulations. Each participating affiliate reimburses CUNA Mutual for payment of the affiliate's portion of liability included in the consolidated tax liability, and each respective affiliate receives its pro-rata share of consolidation-basis tax benefits.

Cost-Sharing Agreement

Effective January 1, 1993, CUNA Mutual, MLIC, and CUMIS established a cost-sharing agreement pertaining to allocation of costs paid by CUNA Mutual for administrative functions and services that CUNA Mutual provides to MLIC and CUMIS. Pursuant to the agreement, joint administrative costs are allocated monthly to MLIC and to CUMIS based on mutually agreed upon allocation methods that take into account appropriate time allocations, item counts, number of employees, or special studies.

Billing and Collections Services Agreement

Effective November 1, 2000, CUNA Mutual and its subsidiaries entered into a revised agreement for allocation of billing and collection services that are performed by CUNA Mutual. Services include processing of all billing notices, printing, mailing and distribution of billing notices, maintenance of customer billing and payment history information, processing and validation of payment receipts, daily electronic transfer of funds to the respective company's designated account, automated feed to the general ledger of all due and received premium, and daily and monthly reconciliation of deposit accounts and outstanding bills. Each participating company pays quarterly to CUNA a servicing fee based on mutually agreed upon allocation methods.

Procurement and Disbursement Services Agreement

Effective November 1, 2000, CUNA Mutual and its subsidiaries entered into a revised agreement for allocation of procurement and disbursement services that are performed by CUNA Mutual. Procurement services include maintenance of a company-wide procurement function, central processing of all requests for purchase, negotiation of purchase agreements and pricing, performance of lease/purchase analysis, and coordination of master inventory management. Disbursement services include processing all disbursement requests for general operating expenditures, facilitation of payment by the appropriate participating subsidiary, maintenance of

vendor payment and voucher record archives, maintenance of detailed accrual and cash journal entries, and daily account reconciliation. Each participating company pays quarterly to CUNA a servicing fee based on mutually agreed upon allocation methods.

Investment Advisory Agreement

Effective September 8, 1994, CUNA Mutual and its affiliates entered into an investment advisory agreement with MEMBERS Capital Advisors, Inc. (MCA, formerly known as Century Investment Management Co). Under the agreement CUNA Mutual appointed MCA to act as the principal investment advisor and portfolio manager for the management and investment of the invested assets of CUNA Mutual and its respective affiliates. The agreement also appointed MCA as the principal investment advisor and manager of specified trust fund assets that are held by United States Trust Company of New York as Trustee. MCA as advisor agreed to provide continuous professional investment management for the company and its affiliates, and to comply at all times to the policies, directives and guidelines established by the company's board of directors.

Australian Insurance Services and Agency Agreement

Effective November 11, 1999, CUMIS entered into a property and casualty insurance services agreement with an affiliate, finsure.australia limited ("finsure"). Finsure is an Australian financial services company that is 50% owned by an Australian holding company subsidiary of CUNA Mutual. Pursuant to the services and agency agreement, finsure provides various data processing, accounting, payroll, cash management, policy administration, and marketing services on behalf of the company. Finsure agreed to provide management, administrative, marketing and support services in connection with the conduct of the company's property and casualty business in Australia. CUNA Mutual entered into a similar services and agency agreement with finsure with regard to services provided for CUNA Mutual's Australian life and health insurance business.

Total Return Swap Agreement

CUMIS and CMLIC entered into a total return swap agreement that covered the period January 1, 1995 through December 31, 1996. CMLIC agreed to swap total investment return on a \$19.4 million portfolio of CMLIC stock in exchange for the total return on a portfolio in the same amount of CUMIS bonds. The swap was established to improve CMLIC's risk based capital and to improve its assets to liabilities matching. In 1996, the financial impact of the swap was to reduce CMLIC's and correspondingly increase CUMIS's return on investments by \$3.3 million. The swap agreement expired as of year-end 1996.

V. REINSURANCE

CUMIS Insurance Society, Inc.'s reinsurance program and strategy are described below. The company assumes reinsurance risks in certain lines of business to supplement its direct written business. The company also cedes reinsurance coverages for the purpose of claims-exposure mitigation on risks that the company elects to not retain for its own account. Each reinsurance contract contained proper insolvency provisions.

Unaffiliated Ceding Reinsurance Contracts

CUMIS maintains reinsurance contracts that provide quota share, excess loss, and catastrophic coverages for the business written by the company, including property (per-risk and catastrophic coverages), fidelity, casualty, and worker's compensation insurance risks. With the exception of its facultative reinsurance coverages, all ceded coverages are placed through Carvill America Incorporated (Carvill), a reinsurance intermediary. Facultative coverages are placed primarily with General Reinsurance Corporation and Swiss Reinsurance Corporation. Primary participants in the treaties placed by Carvill include the following insurers:

- Lloyds Underwriters
- GE Capital Reinsurance Company
- Trenwick America Reinsurance Corporation
- Hannover Ruckversicherungs – AG
- Everest Reinsurance Company
- Continental Casualty Company

All of the ceding contracts excluding the facultative contracts have three-year-duration contract terms, and are effective from January 1, 1999 to December 31, 2002. The contract durations for facultative placements are individually determined. A summary of the provisions of each of the four primary reinsurance coverage categories is provided below:

Ceded Property Reinsurance—Per Risk

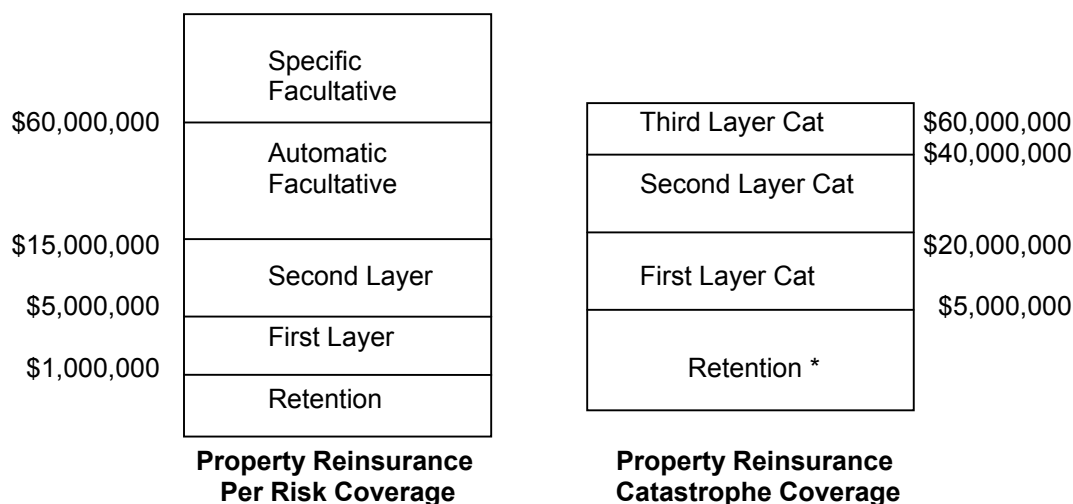
First Layer:	Retention:	\$1,000,000 each risk
	Coverage:	\$4,000,000 each risk, \$12,000,000 maximum per occurrence
	Premium:	2.55% of subject net earned premium
Second Layer:	Retention:	\$5,000,000 each risk
	Coverage:	\$10,000,000 each risk
	Premium:	0.944% of subject net earned premium

Automatic facultative:	Retention:	\$10,000,000 each loss
	Coverage:	\$60,000,000 per occurrence (Except California earthquake where the coverage is \$5,000,000 excess of \$15,000,000)
	Effective:	July 1, 1999, continuous
	Termination:	By either party with 90 days' advance notice
Specific facultative:	Retention:	\$15,000,000
		Coverage, premium, and contract terms are facultatively derived. At the time of the examination, the company had made three major specific property placements, ranging up to coverage of approximately \$247 million, excess of \$15 million.

Ceded Property Reinsurance—Catastrophe

First layer:	Retention:	\$5,000,000 each occurrence
	Coverage:	95% of \$15,000,000 each occurrence, excludes Australian auto
	Premium:	0.387% of subject collateral protection and single auto; 2.90% of all other subject net earned premium, with \$883,500 minimum premium.
Second layer:	Retention:	\$20,000,000 each occurrence
	Coverage:	95% of \$20,000,000 each occurrence excludes Australian auto
	Premium:	0.312% of subject collateral protection and single interest auto; 1.90% of all other subject net earned premium, with \$608,000 minimum premium.
Third layer:	Retention:	\$40,000,000 each occurrence
	Coverage:	95% of \$20,000,000 each occurrence excludes Australian auto
	Premium:	.121% of subject collateral protection and single interest auto; 0.80% of all other subject net earned premium, with \$250,800 minimum premium.
Automatic facultative:	Retention:	\$10,000,000 each occurrence
	Coverage:	\$60,000,000 each occurrence, except California earthquake where the coverage is \$5,000,000 excess \$15,000,000

The property reinsurance coverages are depicted graphically as follows:

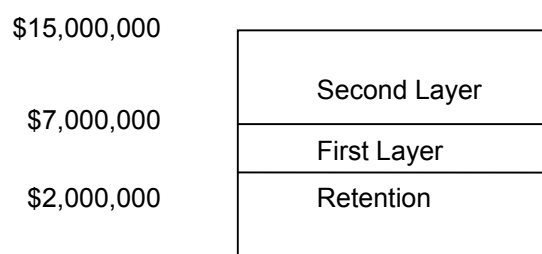


* Reinsured catastrophe coverages are 95%, and CUMIS retains 5% of the risk

Ceded Casualty Excess of Loss Reinsurance

First layer:	Retention:	\$2,000,000 each occurrence
	Coverage:	\$5,000,000 each occurrence \$15,000,000, annual maximum aggregate, excludes Australian coverages.
	Premium:	10% of subject umbrella liability and excess liability net earned premium income, and 0.36% of other subject net earned premium income, \$446,000 minimum
Second layer:	Retention:	\$7,000,000 each occurrence
	Coverage:	\$8,000,000 each occurrence \$16,000,000 annual maximum aggregate, excludes Australian coverages.
	Premium:	1.06% of subject net earned premium, \$316,000 minimum.

The casualty excess of loss reinsurance coverages are depicted graphically as follows:

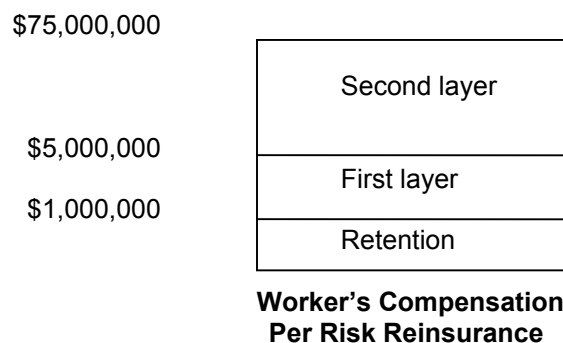


**Casualty Per Risk
Excess of Loss Reinsurance**

Ceded Worker's Compensation Reinsurance

Specific Risk:	Retention:	\$1,000,000 each occurrence
	Coverage:	\$4,000,000 each occurrence \$16,000,000, annual maximum aggregate
	Premium:	4.42% of subject net earned premium, \$450,000 minimum premium
Catastrophe:	Retention:	\$5,000,000 each occurrence
	Coverage:	\$75,000,000 each occurrence
	Premium:	.79% of subject net earned premium, with \$73,500 minimum premium.
Minnesota Only:	Retention:	\$560,000 each occurrence
	Coverage:	\$40,000,000, each occurrence

The worker's compensation casualty reinsurance coverages are depicted graphically as follows:



Ceded Fidelity Reinsurance—Per Risk

First excess: excess	Retention:	\$3,000,000, each loss
	Coverage:	\$12,000,000 per occurrence, \$50,000,000 maximum per occurrence; clash coverage of \$12,000,000 of \$3,000,000 with maximum \$36,000,000 annual aggregate; D&O only 95% of \$50,000,000 excess of \$62,500,000 cumulative over 3 years over \$3,000,000 per risk.
	Premium:	2.10% of subject net earned premium, \$2,850,000 minimum premium.
Specific Facultative	Retention:	\$15,000,000

(Coverage, premium, and contract terms are facultatively derived.)

Ceded Fidelity Reinsurance—Clash Coverage

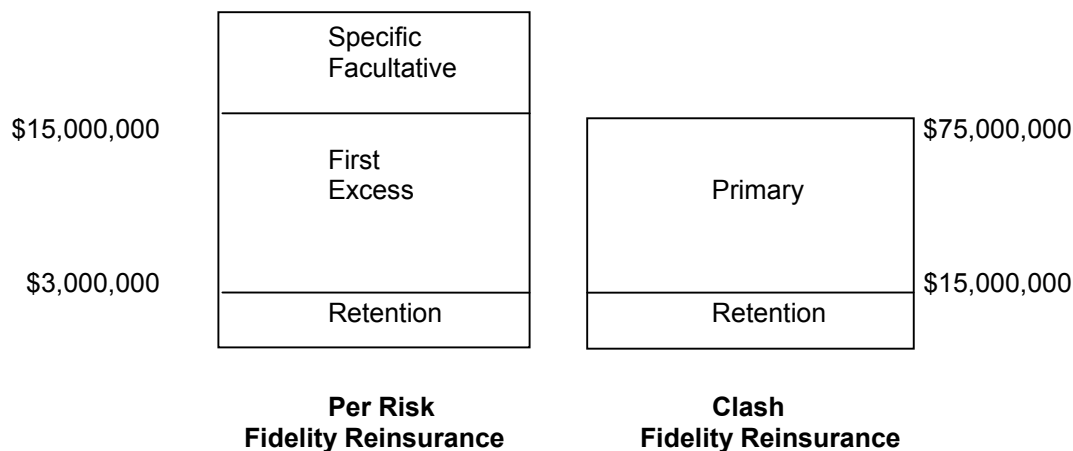
Primary: Retention: \$15,000,000, each occurrence

Coverage: \$60,000,000 per occurrence, with an annual aggregate limit of \$120,000,000

Premium: 1.68% of subject net earned premium income,

with a combined first annual minimum premium of \$2,590,000.

The fidelity reinsurance coverages are depicted graphically as follows:



Affiliated Assumed Reinsurance

CUMIS assumes an immaterial amount of reinsurance risks from the affiliated insurer CUMIS General Insurance Company (Canada). The coverages have two layers, with the first layer covering Cdn\$750,000 in excess of Cdn\$250,000 and the second layer Cdn\$1 million in excess of Cdn\$1 million. There are two layers because the second layer has some differences in the specific casualty coverage included. All contracts contained sufficient insolvency provisions. These contracts are annually renewed. Other provisions of these contracts are summarized as follows:

(dollars in this section are Canadian)

General cession to CUMIS:

Casualty: 1st: Coverage: 100% excess of \$250,000, each loss
\$750,000 maximum, each occurrence

2nd: Coverage: 100% excess of \$1,000,000, each loss
\$1,000,000 maximum, each occurrence

Property: Coverage: 100% excess of \$250,000, each occurrence
\$4,750,000 maximum each occurrence.

Bond and Directors Liability:	Coverage: 100% excess of \$250,000, each loss \$1,250,000 maximum, each occurrence
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Unaffiliated Reinsurance Assumption Contracts

Liberty Mutual Insurance Company

CUMIS assumes 15% quota share reinsurance on the direct homeowners and automobile program business written by Liberty Mutual through CUNA Mutual Insurance Agency, Inc. The risks assumed by the company are a quota share portion of Liberty Mutual's net liability for gross loss and loss adjustment expense remaining after cessions, if any, to other reinsurance.

Old American County Mutual Fronting Arrangement

CUMIS assumes collateral protection insurance (CPI) written the State of Texas under a "fronting" arrangement with Old American County Mutual Fire Insurance Company (Old American), an unaffiliated Texas county mutual. CUMIS established the fronting arrangement because Texas law provides that a direct writer of CPI in Texas must be a Texas domiciled insurer.

Under the fronting arrangement, Old American writes CPI coverages in Texas on loans issued to individual credit union members, and cedes 100% of the subject direct business to CUMIS. Old American earns a ceding commission of from 2% to 3%. The Texas CPI business is produced by CUNA Mutual General Agency of Texas, Inc. (CMGA), an affiliate of the company, pursuant to a managing general agency agreement between CMGA and Old American. The reinsurance contract was established effective November 15, 1981, and is cancelable by either party with 90 days' advance written notice.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, comment on any exceptional NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Surplus per Examination."

CUMIS Insurance Society, Inc.

Assets

As of December 31, 2000

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$488,102,589		\$ 347,982	\$487,754,607
Stocks:				
Preferred stocks	2,471,390			2,471,390
Common stocks	88,590,142	\$30,946,162		119,536,304
Collateral loans				
Cash	5,234,354			5,234,354
Short-term investments	26,394,996			26,394,996
Other invested assets	4,727,865			4,727,865
Receivable for securities	3,146,009			3,146,009
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	26,476,468		2,165,744	24,310,724
Premiums, agents' balances, and installments booked but deferred and not yet due	4,530,867			4,530,867
Funds held by or deposited with reinsured companies	16,411,383			16,411,383
Reinsurance recoverables on loss and adjustment payments	311,388			311,388
Federal income tax recoverable and interest thereon	145,330			145,330
Electronic data processing equipment	225,920			225,920
Interest, dividends, and real estate income due and accrued		8,315,874		8,315,874
Receivable from parent, subsidiaries, and affiliates	4,286,246	327,431		4,613,677
Other assets nonadmitted:				
Equipment, furniture, and supplies	35,458		35,458	
Loans on personal security, endorsed or not				
Write-ins for other than invested assets				
Levy tax receivable	669,316	(140,495)		528,821
Accounts receivable	692,675			692,675
Software	207,737		207,737	
Leasehold improvements	11,337		11,337	
Travel advance	5,452		5,452	
Total Assets	<u>\$672,676,922</u>	<u>\$39,448,972</u>	<u>\$2,773,710</u>	<u>\$709,352,184</u>

CUMIS Insurance Society, Inc.
Liabilities, Surplus, and Other Funds
As of December 31, 2000

Losses	\$196,370,942
Reinsurance payable on paid loss and loss adjustment expenses	3,550,714
Loss adjustment expenses	42,824,980
Other expenses (excluding taxes, licenses, and fees)	3,850,668
Taxes, licenses, and fees (excluding federal and foreign income taxes)	2,095,174
Federal and foreign income taxes (excluding deferred taxes)	3,219,716
Unearned premiums	150,088,491
Amounts withheld or retained by company for the account of others	(246,843)
Remittances and items not allocated	6,933,563
Provision for reinsurance	318,200
Excess of statutory over statement reserves	22,228,755
Payable to parent, subsidiaries, and affiliates	12,455,579
Payable for securities	7,445,316
Write-ins for liabilities:	
Advance premiums	19,037,761
Amounts due AIPSO and underwriting pools	1,463,349
Provision – Benefit for retirees	212,732
Checks charged off	66
Deferred leasehold incentives	(64,732)
Total Liabilities	<u>471,784,431</u>
Common capital stock	5,831,488
Gross paid in and contributed surplus	38,352,015
Unassigned funds (surplus)	<u>193,384,251</u>
Surplus as Regards Policyholders	<u>237,567,754</u>
Total Liabilities, Surplus, and Other Funds	<u>\$709,352,185</u>

CUMIS Insurance Society, Inc.
Summary of Operations
For the Year 2000

Underwriting Income

Premiums earned	\$291,601,756	
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Deductions

Losses incurred	151,485,182	
Loss expenses incurred	21,297,029	
Other underwriting expenses incurred	<u>106,218,634</u>	

Total underwriting deductions	<u>279,000,845</u>	
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Net underwriting gain		\$12,600,911
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Investment Income

Net investment income earned	38,193,666	
Net realized capital gains or losses	<u>(2,684,574)</u>	
Net investment gain or loss		35,509,092

Other Income

Net gain or loss from agents' or premium balances charged off	(98,774)	
Write-ins for miscellaneous income:		
Miscellaneous income	<u>(426,997)</u>	
Total other income		<u>(525,771)</u>

Net income before federal and foreign income taxes		47,584,232
Federal and foreign income taxes incurred		<u>11,505,770</u>

Net Income		<u>\$36,078,462</u>
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CUMIS Insurance Society, Inc.
Cash Flow
As of December 31, 2000

Premiums collected net of reinsurance	\$291,561,862	
Loss and loss adjustment expenses paid (net of salvage or subrogation)	167,748,147	
Underwriting expenses paid	<u>105,630,556</u>	
Cash from underwriting		\$18,183,159
Investment income (net of investment expense)		39,924,352
Other income (expenses):		
Agents' balances charged off	(98,774)	
Net funds held under reinsurance treaties	(8,325,710)	
Net amount withheld or retained for account of others	(364,043)	
Write-ins for miscellaneous items:		
Miscellaneous income	<u>(426,997)</u>	
Total other income		(9,215,524)
Deduct:		
Federal income taxes paid		<u>14,099,412</u>
Net cash from operations		\$34,792,575
Proceeds from investments sold, matured, or repaid:		
Bonds	432,794,604	
Stocks	78,650,972	
Net gains or (losses) on cash and short-term investments	(1,146)	
Miscellaneous proceeds	<u>6,111,355</u>	
Total investment proceeds		517,555,785
Cost of investments acquired (long-term only):		
Bonds	297,248,837	
Stocks	61,207,095	
Miscellaneous applications	<u>2,930,524</u>	
Total investments acquired		<u>361,386,456</u>
Net cash from investments		156,169,329
Cash provided from financing and miscellaneous sources:		
Net transfers from affiliates	4,447,708	
Other cash provided	<u>5,373,384</u>	
Total		9,821,092
Cash applied for financing and miscellaneous uses:		
Dividends to stockholders paid	175,000,000	
Other applications	<u>1,390,972</u>	
Total		<u>176,390,972</u>
Net cash from financing and miscellaneous sources		<u>(166,569,880)</u>
Net change in cash and short-term investments		24,392,024

Reconciliation

Cash and short-term investments,
December 31, 1997

7,237,326

Cash and short-term investments,
December 31, 1998

\$31,629,350

**CUMIS Insurance Society, Inc.
Compulsory and Security Surplus
Calculation per Examination
As of December 31, 2000**

Assets		\$709,352,184	
Less investment in insurance subsidiaries not in excess of subsidiaries' security surplus			
Less liabilities		<u>471,784,431</u>	
Subtotal			\$237,567,754
Examination adjustments			<u>(826,054)</u>
Adjusted surplus			236,741,700
Annual premium:			
Individual accident and health	\$ 4,701,481		
Factor	<u>15%</u>		
Total		705,222	
Group accident and health	104,650		
Factor	<u>10%</u>		
Total		10,465	
All other insurance	291,172,035		
Factor	<u>20%</u>		
Total		<u>\$ 58,234,407</u>	
Compulsory surplus (subject to a minimum of \$2 million)			<u>58,950,094</u>
Compulsory surplus excess			<u>\$177,791,606</u>
Adjusted surplus			\$236,741,700
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			<u>77,814,124</u>
Security surplus excess			<u>\$158,927,576</u>

CUMIS Insurance Society, Inc.
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1996	1997	1998	1999	2000
Surplus, beginning of year	\$216,670,510	\$248,753,001	\$305,857,907	\$346,814,720	\$391,023,366
Net income	28,082,827	34,766,206	37,234,208	47,400,637	36,078,462
Net unrealized capital gains or (losses)	6,697,076	10,111,852	5,363,991	7,147,330	(12,230,908)
Change in nonadmitted assets	(1,160,476)	(610,373)	1,263,963	(1,930,067)	2,665,347
Change in provision for reinsurance	491,400	104,000	(38,200)	(301,400)	77,400
Change in foreign exchange adjustment	(145,000)	63,654	1,096,346	421,054	370,002
Change in excess of statutory reserves over statement reserves	(1,336,487)	(1,778,183)	(4,158,109)	(8,128,908)	(5,815,916)
Dividends to stockholders					(175,000,000)
Write-ins for gains and (losses) in surplus:					
Projected investment losses				(400,000)	400,000
Change in foreign exchange rates	1,324,902	(2,327,100)	106,474		
Prior-year premium/claims adjustments	(629)	(1,045,404)	9,850		
Adjustment to ledger assets/liabilities	208,034	402,992	78,290		
Anticipated salvage and subrogation]		17,972,860			
Prior-year operational adjustments	(210,156)	(555,598)			
Prior-year adjustment for compensated absences	(1,869,000)				
Surplus, end of year	<u>\$248,753,001</u>	<u>\$305,857,907</u>	<u>\$346,814,720</u>	<u>\$391,023,366</u>	<u>\$237,567,753</u>

CUMIS Insurance Society, Inc.
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2000

The following is a summary of the company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. An asterisk denotes the sole exceptional ratio result that occurred during the period. Brief discussion of the exceptional ratio is included following the table of IRIS ratios.

	Ratio	1996	1997	1998	1999	2000
#1	Gross Premium to Surplus	118%	97%	88%	75%	129%
#1A	Net Premium to Surplus	108%	90%	83%	72%	125%
#2	Change in Net Writings	6%	3%	5%	-2%	4%
#3	Surplus Aid to Surplus	0%	0%	0%	0%	0%
#4	Two-Year Overall Operating Ratio	77%	80%	83%	80%	80%
#5	Investment Yield	6.1%	5.8%	5.4%	5.4%	5.4%
#6	Change in Surplus	13%	21%	14%	12%	-36% *
#7	Liabilities to Liquid Assets	63%	58%	58%	57%	71%
#8	Agents' Balances to Surplus	4%	5%	8%	6%	10%
#9	One-Year Reserve Development. to Surplus	-13%	-15%	-11%	-10%	-5%
#10	Two-Year Reserve Development. to Surplus	-20%	-19%	-19%	-16%	-23%
#11	Estimated Current Reserve Deficiency. To Surp	-21%	-14%	-14%	-5%	-4%

The exceptional result for ratio 6, Change in Surplus, in 2000 was due to the company's payment of a dividend of \$175 million to its parent, CMIC. The dividend exceeded the NAIC ratio analysis threshold for classification as an exceptional value. The dividend paid by the company to CMIC was ultimately paid by CMIC in turn to the holding company parent CUNA Mutual.

Growth of CUMIS Insurance Society, Inc.

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1996	\$628,746,141	\$379,993,140	\$248,753,001	\$28,082,827
1997	693,331,740	387,473,833	305,857,907	34,766,206
1998	769,893,362	423,078,642	346,814,720	37,234,208
1999	846,940,462	455,917,095	391,023,367	47,400,637
2000	709,352,184	471,784,430	237,567,754	36,078,462

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1996	\$292,951,807	\$268,069,976	\$291,601,756	60.1%	30.2%	90.3%
1997	296,628,580	275,364,010	280,072,958	65.1%	30.4%	95.5%
1998	304,849,172	288,877,543	278,765,324	62.4%	33.2%	95.6%
1999	294,330,797	283,325,191	274,420,017	56.9%	35.8%	92.7%
2000	306,467,027	295,978,166	263,099,542	59.3%	36.1%	95.4%

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of year-end 2000 surplus reported by the company and as determined by this examination:

Surplus December 31, 2000, per annual statement			\$237,567,754
	Increase	Decrease	
Advance Premium Liability		<u>\$826,054</u>	
Net increase or (decrease)	<u>\$0</u>	<u>\$826,054</u>	<u>(826,054)</u>
Surplus December 31, 2000, per examination			<u>\$236,741,700</u>

Examination Reclassifications

	Debit	Credit
Remittances and Items Not Allocated Affiliated Liability	<u>\$6,347,004</u>	<u>\$6,347,004</u>
Total reclassifications	<u>\$6,347,004</u>	<u>\$6,347,004</u>

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The prior examination made five recommendations pertaining to matters of financial regulation and three recommendations pertaining to matters of market conduct regulation.

Current examination comment in this report on the prior recommendations is limited to review of the financial regulation recommendations. Financial regulation comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. **Reinsurance Payable on Paid Loss and Loss Adjustment Expenses**—It is recommended that the company report assumed losses and LAE payables under the annual statement line captioned “reinsurance payable on paid loss and loss adjustment expenses.”

Action—Compliance.

2. **Reinsurance Intermediary Agreements**—It is recommended that the company maintain acceptable reinsurance intermediary agreements as required under s. Ins 47.03, Wis. Admin. Code.

Action—Compliance.

3. **Reporting for Valuation of Subsidiaries**—It is again recommended that the company annually submit the required subsidiary common stock valuation information to the NAIC Valuation of Securities Office or show balances as not-admitted assets.

Action—Compliance.

4. **Write-in Items for Gains or Losses in Surplus**—It is recommended that the company include all usual and ordinary adjustments to federal income taxes within the income statement, and not as a direct adjustment to surplus. It is further recommended that all other recurring adjustments, such as “over/short write-off,” be included above the line in net income, rather than as direct adjustments to surplus on future annual statements.

Action—Compliance.

5. **Custodial Agreements**—It is recommended that the company amend its custodial agreement, by adding sufficient indemnification provisions, stating that the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

Action—Compliance.

Summary of Current Examination Results

Biographical Disclosures

During the years under examination, the company did not provide to the Commissioner biographical disclosures upon the selection or appointment of new officers and directors. Requirement for biographical disclosure is established pursuant to s. 611.54, Wis. Stat., and s. Ins. 6.52 (5), Wis. Adm. Code, which provides that an insurer shall disclose biographical information with respect to the appointment or election of any new director, trustee, or officer within fifteen days of the appointment or election. It is recommended that the company provide timely biographical disclosure upon the appointment or election of new officers and directors, in compliance with s. 611.54, Wis. Stat., and s. Ins. 6.52 (5), Wis. Adm. Code.

Invested Assets—SVO Compliance

Examination review of the company's bond investments determined that the company did not make all of the required filings of its bond securities with the NAIC Securities Valuation Office (SVO) for SVO valuation purposes. In addition, the company incorrectly reported SVO securities designations in the annual statement Schedule D. The company's SVO filings and financial reporting of securities designations were not in compliance with the requirements established for insurers by the Purposes and Procedures Manual of the NAIC Securities Valuation Office. The examination waived adjustment to non-admit the unfiled securities for purposes of this examination and for the 2001 annual statement filing, based on steps that the company has undertaken to correct its filing and reporting deficiencies.

It is recommended that the company establish the following corrective procedures:

1. All securities held by the company that have not been filed with the SVO and that are not exempt from SVO filing requirements be sold or filed with the SVO within 120 days.
2. All new securities purchased by the company that are not rated by the SVO and that are not exempt from SVO filing requirements be filed with the SVO within 120 days of purchase.
3. The company evaluate at least monthly the SVO valuation status of all investments its invested securities and will make all necessary annual filings to maintain SVO valuations for all securities held that are not exempt from SVO filing requirements.

4. The company provide to the Commissioner copies of all filings made to the SVO.

Loaned Securities Disclosures

The company participates in investment securities lending. Under the securities lending program, securities are loaned through investment intermediaries to third party investors.

Examination review determined that the company properly disclosed in the annual statement general interrogatories the aggregate amount of securities loaned, and the company properly identified in Schedule D the individual loaned securities. However, there are further required disclosures for which the company was not in compliance. Annual statement instructions provide that, for loaned securities, an insurer shall attach a schedule to report transaction information for each security owned at year-end, including dates of transactions, complete description of securities involved, market value data on the dates of the transactions, form of collateral information, and other pertinent information. It is recommended that the company disclose in its statutory annual statements loaned securities supplemental transaction information, in compliance with NAIC Annual Statement Instructions—Property and Casualty.

Financial Reporting—Common Stock

CUNA Mutual Insurance Society is the ultimate controlling entity for two families of proprietary managed investment funds, the Ultra Series Funds and the MEMBERS Mutual Funds. The Ultra Series Funds were originally established by CMLIC in 1983 as an Iowa domiciled trust, and offer CMLIC variable life insurance investment products to credit union members.

MEMBERS Mutual Funds is an open-end management investment company organized in 1997 as a Delaware domiciled business trust, and offers a family of seven mutual fund portfolios that are marketed to credit union members. MEMBERS Capital Advisor's, Inc., which is jointly owned 50% by CUNA Mutual and 50% by CMLIC, administers the two families of funds.

In 2000, CUMIS provided \$11 million of seed money to Ultra Series Funds and \$15.2 million to MEMBERS Mutual Funds. CUMIS reported its holdings in these funds in Schedule D of its statutory annual statement as unaffiliated investments. For purposes of investment classification, CUMIS is an affiliate of the Ultra Series Funds and MEMBERS Mutual Funds within the meaning of s. 600.03 (2), Wis. Stat, and the company should classify its investments in the

two funds families as affiliated common stock. It is recommended that the company report its investments in Ultra Series Funds and MEMBERS Mutual Funds under the classification “Common Stock—Parent, Subsidiaries, and Affiliates” in Schedule D of the company’s statutory annual statements.

Financial Reporting

NAIC Annual statement instructions provide that in Schedule Y, Part 2, an insurer shall report intercompany transactions between affiliated insurers that are not of a routine nature and that equal or exceed one-half of one percent of the largest company’s admitted assets. During 2000, CUMIS invested \$15 million in MEMBERS Mutual Funds. The 2000 annual statement Schedule Y, Part 2, did not disclose this affiliated transaction even though they exceeded the threshold for disclosure. It is recommended that the company report in Schedule Y of its statutory annual statements material transactions among affiliated insurers, in conformity with NAIC Annual Statement Instructions—Property and Casualty.

Financial Reporting—Annual Statement Schedule T

The examination review of company records pertaining to annual statement Schedule T detail determined that the company did not have documentation of its license authority in two jurisdictions, American Samoa and the U.S. Virgin Islands, for which the company reported that it was licensed in Schedule T disclosures. It is recommended that the company obtain documentation of its license authorization in each jurisdiction in which it is licensed, and that the company maintain documentation pertaining to its licensure authorization in the various jurisdictions.

Remittances and Items Not Allocated

The company's 2000 annual statement reported a liability of \$6.9 million for the account remittances and items not allocated. Under statutory accounting practice, the remittances and items not allocated account is customarily used to report liability for unallocated premium and cash receipts. Unallocated amounts typically consist of premium receipts that are either payment for policies that are not yet issued or are payments that differ from billed and due amounts. The annual statement instructions provide that premium suspense credit balances shall not be offset by unrelated suspense debit balances, and that such debit suspense balances should be reported as a separate asset balance to the extent that they are not offset by related liability items.

The examination determined that the company's reported remittances and items not allocated balance consisted primarily of affiliated transactions in the course of settlement. The examination reclassified \$6,347,004 of the reported liability to the account "payable to parent, subsidiaries, and affiliates." It is recommended that the company exclude transactions from its remittances and items not allocated account that do not relate to unapplied premium and cash receipts, and that the company report unrelated intercompany balances in the course of settlement in an appropriately intercompany asset or liability accounts, in conformity with NAIC Annual Statement Instructions—Property and Casualty

Advance Premium Liability

The examination determined that the company's calculation of advance premium omitted the liability for the company's commercial casualty business. Due to the omission, the reported liability was understated by \$826,054. The examination made an adjustment in the amount of \$826,054 to increase the reported advance premium liability and to decrease reported surplus. The adjusted balance of advance premium liability per examination equals \$19,863,815. It is recommended that the company report in its statutory financial statements all of the advance premium liability due on the company's complete book of business, in conformity with NAIC Annual Statement Instructions—Property and Casualty.

VIII. CONCLUSION

CUMIS Insurance Society, Inc. is a Wisconsin domiciled property and casualty insurer originally organized in 1960. The company is a wholly owned subsidiary of CUNA Mutual Investment Corporation, and ultimate control of the company is held by of CUNA Mutual Insurance Society. CUNA Mutual is a Wisconsin domiciled Mutual life and health insurer that provides insurance and financial products and services to credit unions and credit union members.

CUMIS is a direct writer of insurance on the property and casualty risks of credit unions. CUMIS specializes in writing fidelity bonds with directors and officers endorsements and in writing multiple peril package coverages.

The examination determined that the company complied with the recommendations of the previous examination. The current examination made eight recommendations and one account reclassification.

The examination made one adjustment to reported surplus, to increase the reported advance premium liability. The examination adjustment decreased reported surplus by \$826,054. The examination determined that, as of December 31, 2000, the company had total admitted assets of \$709,352,184, total liabilities of \$472,610,484, and policyholders' surplus of \$236,741,700.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 35 Biographical Disclosures—It is recommended that the company provide timely biographical disclosure upon the appointment or election of new officers and directors, in compliance with s. 611.54, Wis. Stat., and s. Ins. 6.52 (5), Wis. Adm. Code.
2. Page 35 Invested Assets—SVO Compliance—It is recommended that the company establish the following corrective procedures:
 1. All securities held by the company that have not been filed with the SVO and that are not exempt from SVO filing requirements be sold or filed with the SVO within 120 days.
 2. All new securities purchased by the company that are not rated by the SVO and that are not exempt from SVO filing requirements be filed with the SVO within 120 days of purchase.
 3. The company evaluate at least monthly the SVO valuation status of all investments its invested securities and will make all necessary annual filings to maintain SVO valuations for all securities held that are not exempt from SVO filing requirements.
 4. The company provide to the Commissioner copies of all filings made to the SVO.
3. Page 36 Loaned Securities Disclosures—It is recommended that the company disclose in its statutory annual statements loaned securities supplemental transaction information, in compliance with NAIC Annual Statement Instructions—Property and Casualty.
4. Page 37 Financial Reporting—Common Stock—It is recommended that the company report its investments in Ultra Series Funds and MEMBERS Mutual Funds under the classification “Common Stock—Parent, Subsidiaries, and Affiliates” in Schedule D of the company’s statutory annual statements.
5. Page 37 Financial Reporting—It is recommended that the company report in Schedule Y of its statutory annual statements material transactions among affiliated insurers, in conformity with NAIC Annual Statement Instructions—Property and Casualty.
6. Page 37 Financial Reporting—Annual Statement Schedule T—It is recommended that the company obtain documentation of its license authorization in each jurisdiction in which it is licensed, and that the company maintain documentation pertaining to its licensure authorization in the various jurisdictions.
7. Page 38 Remittances and Items Not Allocated—It is recommended that the company exclude transactions from its remittances and items not allocated account that do not relate to unapplied premium and cash receipts, and that the company report unrelated intercompany balances in the course of settlement in an appropriately intercompany asset or liability accounts, in conformity with NAIC Annual Statement Instructions—Property and Casualty.
8. Page 38 Advance Premium Liability—It is recommended that the company report in its statutory financial statements all of the advance premium liability due on the company’s complete book of business, in conformity with NAIC Annual Statement Instructions—Property and Casualty.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Richard Harlow Anderson	Insurance Financial Examiner
Jerry C. DeArmond	Reserve Analysis Specialist
Donald Gasser	Insurance Financial Examiner
Russell Lamb	Insurance Financial Examiner
Eleanor Opprecht	Insurance Financial Examiner
Christine Shan	Insurance Financial Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge